5 Top Tips To Negotiate A Pre-Auction Purchase

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TRILOGY news

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More properties are being transacted under the fall of the hammer than ever before in Australia, a nation that's historically transacted the bulk of its real estate through private treaty.

Logically, auction activity has increased most in those areas where demand is consistently outstripping supply, leading to continued upward pressure on property prices. Think inner city Melbourne and Sydney obviously.

In some locations where accommodation supply is incredibly prohibitive, houses going under the fall of the hammer have been achieving ridiculously lofty results, way above the quoted guide price.

If you happen across a property as an investor, which is due to go to market via auction, you can certainly ask the vendor's agent whether they'd be willing to table a pre-auction offer. Of course as with most things in life, just because you can, doesn't mean you should.

In some instances, where you can see there'll be less buyer demand – perhaps due to the property requiring extensive cosmetic rehabilitation to bring it up to most people's standards – you're potentially better off waiting to see what the market tells the owners it's actually worth.

Particularly if it looks as thought a property will be passed in at auction, it's good to hang tight and wait for the dust to settle before swooping in with an offer that will solve the vendor's dilemmas, and see you walk away with a little extra value equity at point of purchase.

In some instances however, particularly hotter markets where the auction process might see you in a competitive bidding war, it can be in your best interests to open the channels for parlay prior to 'the big day'. And then there's the instance where someone else forces your hand…

What if you're an interested party, who's made enquiries on a property that's headed for auction, and the selling agent calls to inform you that the vendor has taken

Here are 5 ways to increase your chance for success with a pre-auction negotiation…

1. Do your research

You might be 'flying blind' when it comes to making a competitive offer against another potential purchaser when trying to secure a property prior to auction, but you should still have clarity around the top price you're prepared to pay.

The best weapon when it comes to negotiation is knowledge. Know the market, know the value of the property in question and armed with that power, approach the parlay with all guns blazing.

If it means putting in an offer above the quoted price range, go for it! There's no point risking losing the home of your dreams or ideal investment just because you wanted 'a steal'. But you should also be prepared to walk away if the price is too high.

2. Be prepared to walk away

While no one likes to consider him or herself a 'loser', it's far better to walk away and live to fight another day than over-commit financially. This comes back to tip number one – if you know the true value of a property and set a limit on what you're prepared to pay accordingly, make sure you stick to your plan. After all, there are plenty more "fish in the sea" and by losing gracefully in one instance, you just might find you're a bigger winner the next time around.

3. Don't be forced into a "Dutch Auction"

When two or more potential purchasers end up making "blind bids" prior to the property going to auction, you have what's referred to as a 'Dutch auction' on your hands. With no idea how much the other party is offering, the selling agent will tell you that they've submitted a higher amount and ask whether you'll increase your offer in response.

This can go back and forth numerous times, depending on how far each party is prepared to take it. Apart from being a dodgy practice, Dutch auctions often push the price of a property beyond reason as emotions get the better of the unwitting participants. Again, the key is to walk away when you reach the limit you set yourself.

4. Use time to your advantage

Never be too hasty or impatient, as this will work against you and could be the reason you lose out to another purchaser. During any negotiations, waiting is often the best weapon in your arsenal. It will make the other party sweat a little and give you the upper hand.

5. Don't be too revealing

Real estate agents are skilled at obtaining information from potential purchasers, including the price they're prepared to pay for a property. It's their job after all! Sometimes you might end up revealing things you never intended to them, which can be detrimental to your negotiation power. Keep your cards close to your chest when it comes to your bottom line to ensure the agent doesn't use your information to sway another potential buyer to outbid you.

Ultimately, while real estate negotiation is a game of tactics, the most desirable outcome is that all parties walk away feeling satisfied that they've achieved what they hoped for. If you're always looking for the solutions in a negotiation, you'll come out on top.

7 ways to secure your financial portfolio in 'funny' political times

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Long time readers of the Trilogy Report know that I like to provide friendly little reminders here and there, as to the fundamentals on which any sound investment should be based, be it residential real estate or some other type of asset class.

Whilst I might occasionally sound like a broken record with little else to do than repeat myself, there is a reason I like to talk about certain things a lot more than others.

This is particularly true in climates like the one we're currently facing…politically and economically speaking. Times when a great deal of noise can drown out all reason and leave even the most seasoned investor feeling a tad uncertain.

So, with world events turning from 'slightly odd' to 'downright whacky' of late, and interest rate rises forecast for our future, there's no time like the present to revisit 7 of my tried and true methods to ensure your financial portfolio is 'safe as houses'.

The overall idea…prepare yourself for virtually anything, including those things you can never predict!

1. Know your goals, know your plans and stick to them.

When you have a clear path mapped out to your desired destination, you have far more chance of getting there without being derailed by any prevailing market noise.

2. Invest in what you can afford, when you can afford it.

Always remain in your financial comfort zone, allowing for contingencies like a change to your income and/or expenses. This requires disciplined forecasting, budgeting and bookkeeping. Which brings me to my next important point…

3. Run your property and financial portfolios as you would a business.

This means clearly thought through planning as to how you'll build your portfolio during the active investment stage, along with what type of revenue it needs to generate to be successful.

4 .Analyse the risks as well as the rewards.

It's important to have confidence in the gains you stand to make as a property investor, but you also need to be mindful of the potential pitfalls, in order to better avoid falling into a financial hole.

5. Always have a sufficient cashflow buffer at hand to cover you for at least three months of reduced income.

Just in case. One of the most common problems investors experience in challenging economic times is maintaining sufficient cashflow to hang on to their asset base.

6. Keep an eye on things.

In your own backyard most importantly. While you need to be aware of world goings on when you're involved in any type of market, you don't have to immerse yourself in the doom-and-gloom reporting we frequently hear around real estate. The challenge is in constantly reviewing your own position, including loan structures. Which brings me to my final point…

7. Don't forget to look for opportunities.

This includes any potential to refinance, or claim further depreciation and negative gearing benefits, to shore up that all-important additional cashflow wherever possible.

A New Investor And Tenant Market Emerges In Australia

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With reports surfacing to suggest that Australia's younger generation faces a dystopian future as long-term tenants in high-rise rental accommodation, it's not surprising that a number of commercial investors have their sights set on an emerging build-to-rent sector.

According to forecasts from the Committee for Economic Development of Australia (CEDA), capital city home ownership will continue to remain an unattainable ideal for most young people for at least another forty years.

CEDA's report suggested this may not be such a bad thing however, if overseas examples of high tenant populations were any indicator of what we might expect. But it would require a massive shift in our collective cultural perception of housing in this country, as well as a change in policies around development, finance and other market influencing regulations.

CEDA outlined a number of ideas around what these changes might look like, including the usual suspects – replace stamp duty with a land tax, loosen planning restrictions, improve outer suburban infrastructure…

Ultimately though, the conclusion was more people will be forced into rental accommodation in the future…a fact large commercial investors and developers like Mirvac are celebrating.

Seeing the opportunities

Back in April, the Urban Land Institute convened a private gathering of large institutional investors and residential developers. Included on the guest list was AMP Capital and student accommodation group Scape, to discuss the build to rent sector in Australia. A sector that has done well elsewhere in the world, but that's never been embraced here, in a land where home ownership has traditionally been the 'norm'.

This followed Macquarie Capital's announcement late last year that they're forming a joint venture with US real estate consortium Greystar, to provide rental accommodation in the Asia Pacific region.

Build-to-rent housing provides long-term residential leases through a single institutional landlord, and is a thriving asset class across Europe and the US.

One of the reasons it's never really taken off here is rental yields. And lately, yields have been particularly discouraging in areas where dwelling values have risen substantially, including inner city Sydney and Melbourne.

According to CoreLogic's home value index for August, gross rental yields in Sydney and Melbourne were recently at an all-time low of around 3 per cent. In Sydney, housing values have increased by 13 per cent in the past year, while rents only rose by 4 per cent. At the beginning of this month however, things seem to have realigned.

Stepping up

Mirvac has now called for parties interested in the build-to-rent market to form a "club" of sorts. Membership is fairly exclusive mind you and will no doubt cost a pretty penny, given investors are being asked to tip in a combined $1 billion to construct hundreds of long term rental apartments that are anticipated to fetch an upfront yield of 4.5 per cent.

While being trapped in the rental market isn't necessarily ideal for younger Australians who face increasing affordability barriers to home ownership, the build-to-rent market would at least provide the certainty and stability of long-term tenancy options.

The proposed 4.5 per cent return – higher than current gross rental yields – is like the "holy grail" of our local build-to-rent market according to analysts, as it's the meeting point of falling commercial asset yields, typically favoured by institutional investors for their higher returns.

Mirvac chief executive Susan Lloyd-Hurwitz told the Australian Financial Review in April, "The yield differential between residential property – pushed down by people looking for a capital growth – has been too big a stretch with retail and commercial property, but now with capitalisation rate compression, we are now very, very close to them being parallel."

Making plans

Mirvac is looking to raise around $164 million through UBS to fund a seed project in Sydney Olympic Park, while another three Mirvac projects already on the go (expected to total around $750 million in value when completed) are also contenders for the "club", known as "Liv. by Mirvac".

SG Hiscock portfolio manager Grant Berry says the Mirvac yield offer is enticing; "We are now seeing office buildings transact on yields below 5 per cent, then you have to allow for tenant incentives so in this context, I reckon it stacks up petty well.

"Incentives and maintenance capital expenditure reduce the yield of office buildings…through the cycle, you are burning money in incentives that you don't see in residential," he says.

Berry also points out that vacancy rates for residential dwellings are generally a lot less than in the commercial office space.

"These build-to-rent buildings are likely to be more than 95 per cent full. With office you can lose a tenant, creating lumpy cashflows. That creates volatility. Over time, that may warrant a higher discount rate for office versus build-to-rent."

As for how build-to-rent products will look, Mirvac's apartment model reflects what's already happening in the US and Europe. High-rise towers will accommodate 100 plus units in major capital cities, with one distinct feature being the included high-end amenities managed by one single property management company.

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A sound asset class

In the US, the build-to-rent sector is regarded as the lowest risk asset class in real estate.

According to EY research, “This itself is premised on the ability to frequently mark-to-market rents, maintain high occupancy rates even in economic downturns for example through dynamic rent pricing and a strong market demand profile stemming from the growing ‘millennial” cohorts’.”

It’s no wonder then that this sector is generating an increasing amount of interest from large developers, with multiple projects planned for Mirvac’s exclusive “club”, as well as independently by bigger commercial consortiums.

For Australians struggling against the rising affordability tide, the emergence of these build-to-rent products couldn’t come at a better time. In Sydney and Melbourne, median house prices are hovering around the $1 million mark, as the gap between wages and house prices continues to rise.

“Many people are saddling themselves up with an enormous amount of debt trying to live the Australian dream, with home ownership or becoming property investors,” Berry says. “Institutional landlords provide an alternative to the model. If we shift away, where renting loses its stigma, people realign their capital and it takes leverage out of the system, which longer term is positive for Australia.”

Housing Supply In Australia Set To Tighten As Time Marches On

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Recently there's been much conjecture as to an impending housing bubble in Australia. Some industry analysts suggest we're on the verge of a dwelling oversupply, which when combined with our vastly changing lending landscape, could cause overly inflated housing values in some cities to nosedive.

Of course this outcome is heavily reliant on the scales actually tipping from more demand than accommodation availability, to more vacant buildings than willing bodies to fill them.

The anticipated stock saturation has been blamed largely on the high-rise apartment construction boom across Melbourne and Sydney (and to a lesser extent Brisbane), with developers cashing in on low interest rates in a rising property market.

Interestingly, the same scary bedtime stories were whispered into investors' ears back in the early beginnings of this century, when the property boom at that time saw our first real commercial high-density development spike, in response to rising market values.

Yet here we are, more than a decade on, and in retrospect it could be argued that the 'oversupply' of that time was absorbed without too much ado or significantly ailing values.

What's more, a new report suggests that without any major changes to today's market activity, rather than facing a property bubble based on too much housing, our undersupply issues are going to get worse before they get better.

Australia's cities bursting at the seams

According to the Committee for Economic Development of Australia (CEDA), Housing Australia report, we can anticipate at least another 40 years of demand pressures and supply constraints in our inner city markets particularly.

"Often the debate around housing affordability is centered on a few topics such as foreign investment, negative gearing and interest rates," said CEDA research and policy committee chairman, Professor Rodney Maddock.

"While these might be some of the factors, the issue is far more complex and without changes now could have longer run consequences."

Shift in economic fortunes

One of the reasons our major cities are bursting at the proverbial seams is that our economy has shifted gears of late. Where not long ago we were heavily reliant on the resources sector to pull us along post GFC, we've become increasingly reliant on services and housing to do much of the fiscal heavy lifting.

"The shift to a service economy has contributed to a larger population living in our cities and coupled with overall population growth through migration, has impacted housing demand, especially in Sydney and Melbourne," noted Professor Maddock.

"With most people choosing to live in our major cities, it is likely the trend of more people living in apartments and more long-term renters will become permanent, and we need to accommodate this better with increased protection for renters."

Learning from 'mother's mistakes'

Interestingly, the report also seeks to address the imbalances created by periods of over-development, due to enthusiastic developers wanting to cash in on rising property markets.

CEDA uses UK housing development policy to extrapolate where Australia can learn from their successes and mistakes. Such as a more drip feed release approach to new high density development, rather than a mass market saturation all at once.

"CEDA's report looks at the UK as an example where developers bid high to obtain land for development and it is then in the interests of developers to build slowly to take advantage of rising market prices," said Maddock.

Ultimately, he affirms what many are already loudly hinting at – the Great Australia Dream of Home Ownership is at risk of dying out with future generations. But it will all invariably hinge on how well price pressures are managed at this point.

"Despite the outlook of continued growth, there are options for government to ease pressure and ensure long-term negative consequences are reduced."